Note: Relatively few people can begin receiving a benefit at exactly age 62 because an individual must be 62 throughout the first month of retirement. Thus, most early retirees begin at age 62 and one month.

Beginning Benefits After Reaching the Full Benefit Retirement Age

An individual who works past his full benefit retirement age receives larger benefits because of the delayed retirement credit. A worker born in 1943 or later receives a credit of 8% per year for each year he delays receiving benefits after reaching his full retirement benefit age until age 70.

Social Security Benefit Calculators

Before retirement, individuals should calculate the Social Security benefit likely to be received upon retirement. In doing so, they will need to project earnings for the remaining period of time before retirement. Taxpayers may do this exercise frequently because they want to know how their benefits will be affected by either an increase or decrease in future earnings. They may also want to calculate the benefits in the event of early or postponed retirement.

There are many benefit calculators which are of assistance in doing this analysis. Some are available from private sources. Others can be downloaded from the Social Security website at *www.ssa.gov*.

The Social Security website offers a choice of four different calculators. Only one is linked to the Social Security earnings record of a taxpayer.

Retirement Estimator

The calculator linked to the Social Security Earnings record of a worker is described as the *Retirement Estimator*. Individuals are required to enter the following information on the Social Security website:

- Full name.
- Other name (for example, maiden name).
- Social Security number.
- Date of birth.
- Place of birth.
- Mother's maiden name.

Using the worker's actual earnings records on file at the Social Security office and assuming future earnings to be the same as last year's earnings, the calculator provides the following information:

- Estimated monthly benefit at age 62.
- Estimated monthly benefit at full retirement age.
- Estimated monthly benefit at age 70.

The advantage of using the Retirement Estimator is the elimination of the need to enter all the details from the earnings records. The disadvantage is the lack of being able to do much *"what if" analysis*.

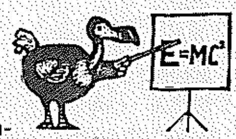
Other Calculators

Three other benefit calculators are also available on the Social Security website. None of these access the actual earnings history from the Social Security Office. To get accurate calculations, it is necessary to enter earnings information manually. The three calculators are:

1) *Quick Calculator*. This calculator provides a rough estimate by inputting date of birth and current year's earnings. (An individual must be age 21 or older for this calculator to work correctly.)
2) *Online Calculator*. Input date of birth and complete earnings history to get a benefit estimate. This calculator can also project future earnings until retirement date.
3) *Detailed Calculator*. This calculator provides the most precise estimates. It must be downloaded and installed on the user's computer. **Note:** There is also a Mac version of the calculator available.

Note: The calculators can be found at *www.ssa.gov/planners/benefitcalculators.htm*.

Using the calculators:



- None of these calculators are linked to the individual's Social Security earnings record; instead, the user must enter earnings amounts. (**Note:** To use Social Security earnings record to calculate retirement benefits, use the *Retirement Estimator* in the previous column.)
- All three calculators assume the individual has enough credits to qualify for benefits; therefore, they will produce an estimate even if the individual does not have the required credits.
- Calculator estimates will differ from those on an individual's Social Security statement if different assumptions are used. For example, if there are prior year earnings, the Social Security statement benefit estimate assumes similar earnings for every future year until age 62. On the other hand, the calculator estimates will not include earnings after the year the individual stops working if a year prior to age 62 is entered.

"What If" Analysis

Social Security Statement

A good starting point to project Social Security benefits and to do *"what if" analysis* for an individual is the annual Social Security statement discussed in Tab 2.

Each year, the SSA mails a Social Security statement to every individual who is at least 25 years of age, is not already receiving Social Security benefits based on his own earnings record and for whom the SSA can obtain a current address. These statements are mailed about three months before the individual's birthday.

An individual also can get a statement of earnings on his Social Security record free of charge by completing Form SSA-7004 (*Request for Social Security Statement*). He can obtain this request form at any Social Security office, by contacting the Social Security Office or from *www.ssa.gov/mystatement*.

Comprehensive Example

Wanda Worker's Social Security statement begins on Page 4-7. Among other items, the statement reveals the following:

Page 2:

Date of Birth	April 5, 1969
Full Retirement Age	67
Monthly benefits beginning at age 62	$1,088
Monthly benefit beginning at age 67	$1,578
Monthly benefit beginning at age 70	$1,967

Page 3: Earning Record for the period 1985 through 2008.

Note: In projecting the benefits at retirement, the SSA has presumed that future earnings will continue to be the same as they were in 2008 (that is, $43,117).

"What if" analysis. There have been two major developments in the life of Wanda Worker. First, she has been offered a new position at her place of employment. Her salary will be $100,000 annually starting in 2011. Second, she has recently inherited a modest amount of money which, when added to her savings, may allow her to get by for the rest of her life without working. Her Social Security benefits, however, would still be a major part of her retirement income.

Wanda would like to know what her Social Security benefit would be at age 62, 67 and 70 in each of the following scenarios:

- She quits work completely after the end of 2010.
- She earns $100,000 for ten more years until 2020 before quitting work.
- She keeps earning $100,000 each year until she starts collecting Social Security benefits.

Detailed calculator—ANY PIA. The Detailed Calculator downloaded from the SSA website is titled ANY PIA. The information for Wanda Worker, including her history of earnings, was entered into the calculator. Her *Summary of Results* is shown on Page 4-11.

Once the data was entered, it was not difficult to change the assumptions to suit each of the scenarios requested by Wanda.

As a result, the following information has been summarized:

	Age 62	Age 67	Age 70
Per SSA[1]	$ 1,088	$ 1,578	$ 1,967
Quit work after 2010[2]	699	1,083	1,416
Quit work after 2020[3]	2,249	1,914	4,504
Work until retirement[4]	1,488	2,440	3,286

[1] Shows the benefits as estimated by the SSA in the Annual Social Security Earnings. These numbers assume that Wanda's earned income will continue to be $43,117 each year until she starts collecting Social Security.

[2] Presumes that Wanda will have no earned income after 2010. As would be expected with a reduction of future earned income, her benefit will decrease.

[3] Presumes that she would have earned income of $100,000 through 2020 and no earned income thereafter. As would be expected, her benefits would be higher than either of the first two scenarios.

[4] Shows what her benefit would be if she continued to earn $100,000 each year until starting to collect Social Security benefits.

Income Tax Planning for Social Security Benefits

How Social Security Benefits Are Taxed

According to the SSA, about one-third of people who receive Social Security retirement, survivorship or disability payments must pay taxes on their benefits. This provision affects only people who have a certain amount of income in addition to their Social Security, including:

1) Those with single filing status and a provisional income:
   a) Between $25,000 and $34,000 may have to pay taxes on 50% of their benefits or
   b) Above $34,000 are liable for income tax on up to 85% of their benefits.
2) Those with joint filling status and a provisional income of:
   a) Between $32,000 and $44,000 may have to pay taxes on 50% of their benefits or
   b) Above $44,000 are liable for income tax on up to 85% of their benefits.

Provisional income equals adjusted gross income (AGI) (as reported on Form 1040), plus nontaxable interest plus half of the taxpayer's Social Security benefits.

Note: Individuals who collect Social Security benefits and are contemplating an end of year marriage may realize a tax savings by delaying the wedding until the following year.

For individuals with very low or very high incomes, planning to reduce or avoid the tax on Social Security benefits is either unnecessary or unrealistic. Either none or 85% of benefits will be includable in gross income. However, there is a middle tier group for whom no more than 50% of benefits is includable. Planning is most beneficial for those in the middle group.

The key to planning is income deferral, not necessarily income avoidance. Popular methods for creating deferred income include the purchase of Series EE bonds (on which the interest income need be reported only when the bonds are redeemed), single-premium annuities (on which tax is avoided until withdrawals begin) and certain securities (which produce taxable gain when sold).

Analysis. If provisional income is less than $25,000 ($32,000 for MFJ), none of the Social Security benefits are taxable. However, any increase in income that raises provisional income over this limit will result in inclusion of Social Security benefits in taxable income. If provisional income is greater than $25,000 ($32,000 for MFJ) but not over $34,000 ($44,000 for MFJ), then 50% of the excess provisional income becomes taxable until 50% of Social Security benefits have been included. For those in this income range, each additional $100 of pre-Social Security income results in an additional $150 of taxable income and an additional $22.50 of tax (assuming the 15% marginal tax bracket). This represents an effective tax rate of 22.5% (1.5 × 15%) on that additional income. This rate should affect all decisions and strategies until 50% of Social Security benefits have been included in income.

When provisional income exceeds $34,000 ($44,000 for MFJ), 85% of the excess provisional income will be taxable until 85% of Social Security benefits have been included. For those in this income range, each additional $100 of pre-Social Security income results in an additional $185 of taxable income and an additional $27.75 of tax (again, assuming the 15% marginal tax bracket). This represents an effective tax rate of 27.75% (1.85 × 15%) on that additional income. This rate would affect all decisions and strategies until 85% of Social Security benefits have been included in income. At that point, the marginal rate would return to 15%.

Planning Strategies

Paying off the mortgage. Frequently, taxpayers consider mortgage interest to be one of the last available tax deductions. Rather than pay off a mortgage, many taxpayers will keep investments which produce income greater than or close to the rate of interest which they pay on the mortgage. If they earn 6% on the investment and pay 6% on the mortgage, in their opinion, this results in a breakeven situation.

However, taxpayers in the phase-in range for including Social Security benefits could reduce taxable income by using the investment funds to pay off the mortgage. If the taxpayer is in the 85% phase-in range, then the tax savings could be as much as 21.25% (85% of 25%—the assumed tax bracket).

For taxpayers using the standard deduction, the tax savings could be as much as 27.75%, as shown in the example below.

Example: Ed and Wilma are married, both are 65 years old and receiving $20,000 in Social Security benefits. They earn interest income of $6,000. They itemize their deductions, including mortgage interest of $6,000 on Schedule A. They are in the 15% tax bracket. Taxable income is unaffected by the interest income since it is offset by the mortgage interest deduction.

If they liquidated the investment which earns interest of $6,000 and used the proceeds to pay off the mortgage, there could be a tax savings of $765. This results from the fact that the $6,000 of interest income may be causing $5,100 (85% of $6,000) of Social Security benefits to be taxed. The tax savings would be $765 at 15%.

If they were not itemizing deductions, then the tax savings would be $1,665 (15% of $5,100 plus 15% of $6,000)